

**FINDING OF NO SIGNIFICANT IMPACT**  
**TENNESSEE VALLEY AUTHORITY**  
**RATE CHANGE (MODIFICATION OF RATE STRUCTURE) FOR**  
**PRICING OF WHOLESALE ELECTRICITY TO DISTRIBUTORS**  
**WITHIN THE TVA POWER SERVICE AREA**

**Proposed Action and Need**

The Tennessee Valley Authority (TVA) is proposing to restructure its wholesale electric power rates to better align them with the current cost of service and the competitive market that surrounds TVA. TVA's goal is to continue to supply affordable, reliable electric power to the distributors and consumers in the region at the lowest feasible rates. TVA proposes to implement changes related to GSA and TGSA billing demand and those related to the continued implementation of the hydro benefit allocation policy. With respect to cost allocation, TVA would create separate manufacturing classifications and schedules for customers having contract demands of more than 5,000 kW, the use of credits (in lieu of new schedules) to reallocate costs to manufacturers with contract demands from 1,001 kW to 5,000 kW, and provide no special manufacturers' allocation for customers whose contract demands do not exceed 1,000 kW.

TVA rates for residential and commercial customers are favorable in comparison to those of other utilities in the region; however, rates for industrial customers are about 12 percent higher than the average for neighboring utilities. Industrial manufacturing remains a vital driving force for the economic health of the seven-state TVA region. However, between 1989 and 2002, civilian nonfarm employment in the region declined from 27 percent of the workforce to 20 percent. The Tennessee Valley is continuing to lose manufacturing jobs. A considerable portion of the operating costs for industrial end-use customers is often related to costs for electric power. While energy cost is just one of many factors typically considered by industries when they decide where to locate, relocate, or expand facilities, it can be an important factor in specific situations. In light of TVA's economic development mission, TVA tries to ensure that its electric rate structure does not burden the manufacturing sector of the regional economy served by TVA. Based on several analyses, including cost of service, allocation of the hydro system benefits (to the residential class), and various competitive factors including market trends and rates charged by other utilities, TVA proposes reallocating the costs reflected in its rate structure.

By letters to all distributors dated February 20, 2003, TVA initiated the rate change process. TVA has now met with distributors numerous times to discuss a number of proposed changes to the current end-use, wholesale rate structure and the corresponding resale rate structure. This notification was made in accordance with the rate change provisions of the existing TVA power contracts. The February 20 notification initiated a process for meeting with distributors to discuss the rate change proposals. These meetings, including presentations, discussions, and listening sessions, aided in the scoping of issues and alternatives considered for this EA.

## **Alternatives**

Several scenarios were developed that represent and bound the potential range of alternatives and effects on consumer classes that has resulted from rate discussions with distributors. The action evaluated as a change in TVA policy is termed a *rate change* which would reallocate cost recovery among different customer classes, but not increase total TVA revenue compared to current rates.

TVA considered the No Action Alternative and five Action Alternatives descriptively termed: Maintain Existing Rate Structure, Apply Rate Adjustment Across the Board, (Alternative A); Equal Impact on Residential and Commercial Customers, 2 Percent Net Decrease to Manufacturing/Large General Power Customers (Alternative B); Minimum Effect on "Business" Customers, 2 Percent Decrease to Manufacturing/Large General Power Customers (Alternative C); No Manufacturing Classifications (Alternative D); and No Manufacturing Classifications Under 1,000 kW (Alternative E – the preferred alternative).

## **Impacts Assessment**

For the identified suite of alternative rate structures, the potentially affected resources include socioeconomics, energy use, air quality, water quality, land use, and production of solid and hazardous waste. Because the magnitude of the direct and cumulative environmental effect of the alternative rate structures, including the preferred action (Alternative E of the EA) is insignificant and so small, TVA expects that any induced environmental impacts would also be very small, essentially indiscernible. The comprehensive environmental regulatory programs that exist throughout all of the Valley states would further ensure that any resulting environmental impacts are insignificant. Potential impacts to other environmental resource areas are expected to be similar to the potential impacts assessed for these more primary resource areas and also insignificant and indiscernible.

TVA is also discussing a *rate adjustment* with distributors that would increase the overall level of TVA revenues. Because it is reasonably foreseeable that such an adjustment would occur at the same time as the proposed rate change and could contribute to cumulative environmental impacts, it was factored into the analyses.

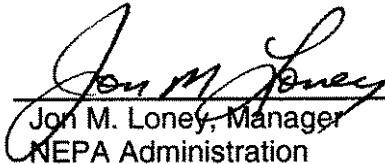
## **Mitigation**

TVA's integrated natural resource management programs regularly monitor the conditions of many different natural resources. These monitoring programs are expected to continue and will enable TVA to identify changes to the physical environment that may unexpectedly result from the proposed rate changes. Because there are a panoply of environmental laws and regulations that are designed to safeguard against unacceptable environmental harm, TVA anticipates that with its ongoing monitoring activities, it should readily be able to make additional changes to its electric power rate structure to offset or prevent any adverse environmental impacts before they reach unacceptable levels. No additional mitigation or monitoring measures beyond those already in existence have been identified.

## **Conclusion and Findings**

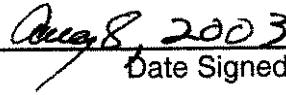
Environmental Policy and Planning's NEPA Administration staff prepared the EA titled, "Rate Change (Modification of Rate Structure) for Pricing of Wholesale Electricity to

Distributors within the TVA Power Service Area," and determined that the potential environmental consequences of the range of alternative rate structures including TVA's preferred action have been addressed and that the proposed action is not a major federal action significantly affecting the quality of the environment. Accordingly, an environmental impact statement is not required.



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Date Signed